

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 17, 2007 Through April 15, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
April 17, 2007 Through April 15, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Nelson County Sheriff for the period April 17, 2007 through April 15, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$19,116,386 for the districts for 2007 taxes, retaining commissions of \$605,878 to operate the Sheriff's office. The Sheriff distributed taxes of \$18,421,314 to the districts for 2007 taxes. Taxes of \$71,329 are due to the districts from the Sheriff and refunds of \$6,897 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Is Working To Eliminate A Deficit In His 2003 Tax Account

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the Nelson County Sheriff's Settlement - 2007 Taxes for the period April 17, 2007 through April 15, 2008. This tax settlement is the responsibility of the Nelson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Nelson County Sheriff's taxes charged, credited, and paid for the period April 17, 2007 through April 15, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Is Working To Eliminate A Deficit In His 2003 Tax Account

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

February 11, 2009

NELSON COUNTY
MIKE NEWTON, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 17, 2007 Through April 15, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,008,801	\$ 2,121,225	\$ 7,979,193	\$ 2,611,508
Tangible Personal Property	246,615	201,607	339,389	799,772
Fire Protection	625			
Increases Through Exonerations	2,890	1,787	10,655	2,643
Franchise Taxes	104,338	72,856	288,937	
Distilled Spirits Taxes	435,378	351,863	988,156	
Additional Billings	1,961	1,410	5,389	1,785
Limestone, Sand and Mineral Reserves	376	184	1,482	326
Bank Franchises	141,958			
Penalties	12,003	9,637	34,906	10,510
Adjusted to Sheriff's Receipt	(380)	(199)		(403)
Gross Chargeable to Sheriff	<u>3,954,565</u>	<u>2,760,370</u>	<u>9,648,107</u>	<u>3,426,141</u>
<u>Credits</u>				
Exonerations	21,655	15,303	68,929	22,348
Discounts	64,382	42,685	151,954	55,814
Delinquents:				
Real Estate	37,275	30,703	116,206	32,323
Tangible Personal Property	<u>1,501</u>	<u>1,187</u>	<u>2,425</u>	<u>8,107</u>
Total Credits	<u>124,813</u>	<u>89,878</u>	<u>339,514</u>	<u>118,592</u>
Taxes Collected	3,829,752	2,670,492	9,308,593	3,307,549
Less: Commissions *	<u>163,052</u>	<u>97,179</u>	<u>204,789</u>	<u>140,858</u>
Taxes Due	3,666,700	2,573,313	9,103,804	3,166,691
Taxes Paid	3,664,102	2,499,957	9,094,502	3,162,753
Refunds (Current and Prior Year)	<u>3,945</u>	<u>2,414</u>	<u>14,667</u>	<u>3,736</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (1,347)</u>	<u>\$ 70,942</u>	<u>\$ (5,365)</u>	<u>\$ 202</u>

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 MIKE NEWTON, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period April 17, 2007 Through April 15, 2008
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	9,295,745
2.2% on	\$	9,308,593
1% on	\$	502,048

** Special Taxing Districts:

Library District	\$	65,774
Extension District		5,353
Soil Conservation District		(13)
Northeast Fire District		(72)
Bardstown/Nelson County Fire District		<u>(100)</u>

Due Districts

(Refunds Due Sheriff)	\$	<u><u>70,942</u></u>
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NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Nelson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

NELSON COUNTY
 NOTES TO FINACIAL STATEMENT
 April 15, 2008
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Nelson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2007 through April 15, 2008.

Note 4. Interest Income

The Nelson County Sheriff earned \$24,448 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Nelson County Sheriff collected \$51,844 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of February 11, 2009, the Sheriff owed \$179 in 10% add-on fees to his fee account.

Note 7. Advertising Costs And Fees

The Nelson County Sheriff collected \$4,132 of advertising costs and \$5,089 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute and the advertising fees were used to operate the Sheriff's office.

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2004	\$17,616
2005	\$ 3,116

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Nelson County Sheriff's Settlement - 2007 Taxes for the period April 17, 2007 through April 15, 2008, and have issued our report thereon dated February 11, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Nelson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of the Financial
Statement In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's Settlement - 2007 Taxes for the period April 17, 2007 through April 15, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Is Working To Eliminate A Deficit In His 2003 Tax Account

The Nelson County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Nelson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 11, 2009

COMMENT AND RECOMMENDATION

NELSON COUNTY
MIKE NEWTON, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 17, 2007 Through April 15, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Is Working To Eliminate A Deficit In His 2003 Tax Account

The Sheriff had a deficit of \$8,850 in his 2003 official tax account. The Sheriff and his staff have identified the source of the deficit and are currently working to recoup the duplicate refunds paid in error. As of April 15, 2008, the deficit had been reduced to \$4,760.

Sheriff's Response: We are still working on this problem and still receiving money. We are having problems with a couple of mortgage companies.

